

A Remarkable Income Tax Speech

Speech of Hon. Cordell Hull of Tennessee, in the house of representatives, Saturday, April 26, 1913. The house in committee of the whole on the state of the union had under consideration the bill (H. R. 3321) to reduce tariff duties and to provide revenue for the government, and for other purposes.

Mr. Hull: Mr. Chairman, for many years those who believe in justice in taxation have been striving to secure the adoption of a national income tax. The United States supreme court first blocked the way by their decision in the Pollock case. During the period that followed this decision, surprising as it was disappointing, its friends continued undismayed to advocate this wholesome doctrine and watched every opportunity to secure its enactment into law in some form. During these dark years of reverses and failure the democratic party was considerate enough of the rights and interests of the people to write in its quadrennial platforms a ringing declaration in favor of this doctrine. The nation-wide sentiment to this effect, which was thus kept alive, grew until in 1909 a republican congress found itself confronted by the alternative of accepting a comprehensive income-tax law or a less broad provision limited to corporations. Being wedded to class taxation, they chose the latter as the lesser measure of relief which the country would receive. The friends of this tax also wrung from that unwilling congress the submission of an amendment to the constitution which when ratified would uproot and overturn the Pollock decision and again restore to the people and their representatives in congress every phase of this just power of taxation.

I congratulate the American people upon the fact that they ratified that amendment, wiped out all judicial obstructions, and cleared the way for comprehensive, honest fiscal legislation. The people's representatives in congress, no less alert, no less mindful of the public welfare, now propose to write into law the great principle which the people forever wrote into the constitution. The general uprising throughout the country in behalf of this tax is due to the long-standing dissatisfaction with existing tax conditions and to the belief, which long since became a conviction, that the masses were being grossly discriminated against through the agency of our tax laws. Every citizen realizes that the general government is obliged to secure revenues to defray its necessary expenses, and that in doing so it takes annually from the property of the American people in the neighborhood of \$1,000,000,000. This can only be accomplished by means of taxation of some kind and in some form. Voluntary contributions, both to the state and the church, as practiced in the early colonial days, are no longer made. No matter how imposed, taxes are never welcomed except to the extent that they displace a more undesirable method of taxation. I should say that there is one exception to this universal rule of human nature. Our manufacturing friends, who have been in a tariff partnership with the government for more than half a century, strongly favor the high protective-tariff tax for revenue only—not government revenue, but revenue nevertheless.

During recent years there has been a general agitation and demand in almost every state in the union and almost every country in the world for intelligent, fair, and practical reforms and readjustments of their tax systems, to the end that every citizen may be required to contribute to the wants of the state or government in proportion to the revenue he enjoys under its protection. To this end the doctrine of equality of sacrifice or ability to pay is being universally invoked. A glance at the fiscal history of all countries shows a constant struggle on the part of the wealthy and more powerful classes to shift the chief weight of government taxation to the shoulders and backs of those weaker, poorer, and less able to protect themselves from the injustice and oppression inflicted by disproportionate tax burdens. This conflict has been and is today being waged in the United States.

All taxes in this country, whether for national or state and local purposes, fall upon the American people; however, the gross inequalities and injustices resulting from tax evasion by those most able to pay and the shifting of the tax burden to those least able to pay is seen alike in connection with both national and local taxation. This is the result of unequal and unjust tax laws. As stated, the general government must

annually take from the property of the people about \$1,000,000,000, while the states and their subdivisions must annually take a still larger amount in taxes. Let us glance for a few moments at the effect and operation of our national and state tax laws. The states, as a rule, have sought to maintain the general property tax system.

A few instances will sufficiently disclose the inefficiency and unfairness arising therefrom and the consequent failure and virtual breaking down of these systems. The state tax commission of Massachusetts, according to its published report, recently estimated the value of personal property in Massachusetts that is subject to taxation at over \$5,600,000,000, of which less than one-fifth is taxed. The commission also found that the greater part of this remainder, viz, \$4,646,265,000, is intangible personalty subject to taxation, but which is not taxed, because its disclosure has never been compelled. By the United States census inquiry of 1904, New York had \$5,500,000,000 of personalty, whereas by the tax returns she had only \$1,500,000,000. According to the published report of the special tax commission of that state in 1907, in which the disparity between the assessed and real value of personalty was placed at much wider figures, the following, among other, conclusions were reported:

1. That the richer a person grows the less he pays in relation to his property or income.
2. Experience has shown that under the present system personal property practically escapes taxation for either local or state purposes.

The comptroller general of South Carolina, in his recent report for 1912, indicates that the small property holders pay the bulk of the taxes of the state. One real estate firm of Columbia, according to this report, published at the close of 1912 that their real estate sales during the year in that city aggregated over \$4,000,000, whereas its assessed valuation was \$400,000, or 10 per cent of the price it brought, while the assessed valuation of all property, both in that city and county, was only \$10,685,000, although tax assessors assumed to assess it at 50 per cent of its actual value.

According to the recent report of the Kentucky tax commission, the amount of deposits in the banks of the state on the 1st of January, 1912, was given in for assessment by the taxpayers at \$12,847,868, whereas, according to the reports of the banks to the state commission and to the comptroller of currency at Washington, the amount of deposits on that day was, in fact, \$123,339,871.

The mayor of Philadelphia recently stated in the press that the undervaluation of property in that city is more than \$300,000,000.

To further illustrate our state and local tax systems by an individual instance, the published reports show that Mr. Andrew Carnegie for many years only paid taxes upon a personal assessment of something over \$5,000,000, although it has recently been raised to ten million. It may be safely said that with a few notable exceptions, the conditions I have described exist in the state and local tax systems in relative proportion throughout the union. The small property owner, who can not hide his property nor shift his tax burdens, constantly feels the crushing weight of taxation, while the rich investor in securities, the money lender, and the wealthy business and professional men cover up most of their taxable property, as well as much of their city realty, when the assessor comes around. Intangible personalty, including stocks, bonds, and other securities, almost entirely escape taxation everywhere. A report of the census office shows that in the year 1904, while the true value of all property was \$107,104,192,410, the ad valorem assessment of this property was only \$38,963,381,000; that the true value of personalty was \$44,762,719,000, while it was only assessed at \$8,873,562,000, and the assessment of realty was less than 50 per cent of its true value.

Turning to our present system of national taxes, we find a still worse condition with respect to our customhouse taxation. Our internal-revenue taxes offer no special ground for criticism. Under this system Illinois paid \$51,600,000 to the government for the year ending June 30, 1912; Kentucky, \$31,177,000; Indiana, \$30,000,000; Missouri, \$12,090,000; New York, \$43,890,000; Pennsylvania, \$25,600,000; and other states likewise paid in smaller amounts.

Our system of high protective-tariff taxation violates every canon of taxation and is outrageous in its operation and effects. It is conceived upon the idea that the people should be taxed, not according to their ability to pay, but according to their needs and, practically, their poverty. No civilized or humane people can longer tolerate this system of diabolical extortion. In contributing three hundred millions to the federal treasury the American consumer is compelled at the same time to hand over at least \$1,500,000,000 as a bonus to those select individuals given special favors by the high protective-tariff tax. During recent generations our high tariff taxes have degenerated into a system of special privilege, such as has never before been revealed in the annals of our fiscal history. It is no longer justified either in law or morals. The public conscience revolts against it and modern civilization turns away from it. This doctrine of taxation, the plain and palpable effect of which requires one citizen to bestow as a gift portions of his hard earnings upon another citizen, has become insupportable here and everywhere, and whatever may be the future developments of the economic policy of the United States, the period of high protection has reached its end. (Applause on the democratic side.)

The present average protective-tariff rates appear to be in the neighborhood of 40 per cent, but in fact, when we consider the innumerable rates that are absolutely prohibitive, the average rate must be near 60 per cent.

The temptation to discuss at length the evils and unfairness of our high tariff taxes, and the splendid reductions carried in the present bill is very great, but I shall forego this for the present, in order to consider other phases of our proposed tax system. The American people have completely learned that they are not being taxed either fairly or honestly; they are demanding that the inequalities, abuses, and injustices of our present system of high tariff taxation shall be eliminated, and that a new system of taxes, fair and equitable, embracing a strictly revenue tariff and an income tax, shall be devised. The experience of all countries with respect to every form of taxation has resulted in the universal conclusion that the fairest and most just of all taxes is that which is levied upon the citizen according to ability to pay, and that this result can best be accomplished by imposing a tax on net incomes.

Fifty-two countries and states have taken this step, and wherever given a reasonable trial this form of tax has never been repealed, save in the United States.

England, the seven states of Australasia, and most of the other English colonies, Prussia, and the numerous other German states, Switzerland, Spain, Italy, Norway, Sweden, Holland, Hungary, Greece, Japan, Denmark, Austria, and numerous other important countries have this tax in operation, while France is on the verge of adopting a comprehensive income-tax law in lieu of numerous other taxes. In many or most cases other countries have adopted and maintained this tax for the twofold purpose of securing revenue and equalizing the burdens of taxation.

In no other way could the burdens be equalized and the rising tide of unrest, discontent, and socialism be so successfully met. By this method alone could every citizen see and know that taxes are being imposed equitably and according to ability to pay.

The very fact that this is a just tax means that it will meet with opposition; the beneficiaries of unjust taxation and many who have measurably escaped all taxation will always be found opposing an honest and fair tax upon selfish grounds. Under the present high tariff tax system a poor man with a large family pays more taxes than a rich man with a small family. Hence the man of wealth who is too selfish and too unpatriotic to pay taxes will vigorously oppose the imposition of any just tax, as will any creature of class or privilege taxation.

The pending measure has already met with the specious suggestion that it is class legislation, and makes a distinction between citizen of large means and those without particular means. It may be replied that the very purpose of the measure is to reach for taxation those who have escaped taxes and who are most able to bear the same. Suppose the bill in chief measure exempted this class of citizens, as other laws have done and now do; the tax would continue to be paid, as heretofore, by the middle and poorer classes. The very purpose of a combination of just tax laws is to reach every citizen in fair proportion. The masses of the people are now paying most of our \$312,000,-